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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

Low Volume Long Distance Users

CC Docket No. 99-249

REPLY COMMENTS  
of the  
GENERAL SERVICES ADMINISTRATION

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## **Summary**

In these Reply Comments, GSA responds to carriers who claim that the procedures for recovering revenue requirements associated with the Presubscribed Interexchange Carrier Charge (“PICC”) should not be modified. GSA concurs with comments by end users who are dissatisfied with the existing procedures and urge the Commission to regulate PICC “pass-throughs” by interexchange carriers (“IXCs”) to consumers.

GSA explains that comments by small and large users demonstrate that PICCs for all types of lines — primary residential, non-primary residential, business single lines, and business multi-lines — should be billed directly by local exchange carriers (“LECs”) to end users. In their comments, end users explain that direct billing procedures would ensure that consumers pay only the PICC charges in the LECs’ tariffs rather than “national averages” that are difficult to reconcile and often above the IXCs’ payments to LECs. Moreover, end users explain that direct billing procedures would ensure that consumers receive the benefits of reductions in PICC revenue requirements.

GSA also addresses claims that the Commission should forebear from regulating PICC “pass-throughs” because the interexchange market is highly competitive. GSA acknowledges that IXCs should be allowed to establish the rate structures for meeting their own costs, but surveillance over PICCs is appropriate because the Commission constructed the interstate access charge system to implement national initiatives and foster competition benefiting all ratepayers.

Finally, GSA explains that the Commission should not adopt proposals to allow carriers to recover PICC revenue requirements on any basis other than presubscribed lines. As several end users explain in their comments, this step would reverse the gains of access charge reform and not generally benefit low income callers.

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The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Notice of Inquiry ("Notice") released on July 20, 1999. The Notice seeks comments and replies on the impact of certain flat-rated charges on residential and business customers who make few interstate long-distance calls.

I. INTRODUCTION

The Telecommunications Act of 1996 ("Telecommunications Act") recognized the need for new initiatives to preserve and advance universal service.<sup>1</sup> In the *Access Charge Reform* and *Universal Service* proceedings, the Commission has taken many important initiatives to implement the goals of this legislation.<sup>2</sup> The objective of the current proceeding is to ensure that lower volume consumers — including residential and single-line business users — share in the benefits of these initiatives.

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<sup>1</sup> Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, amending the Communications Act of 1934, 47 U.S.C. § 151 *et seq.* ("Telecommunications Act").

<sup>2</sup> Notice, para. 1.

Although Federal agencies are not “low volume” users of telecommunications services at most locations, the FEAs have a vital stake in this proceeding. Policies for implementing access charge reform and universal service initiatives identified for comment in the Notice will impact the level of competition for all telecommunications services, and determine the costs and scope of service alternatives available to all users — small and large.

GSA submitted Comments in response to the Notice on September 22, 1999. In its Comments, GSA recommended that the Commission modify procedures for recovery of the revenue requirement associated with the Presubscribed Interchange Carrier Charge (“PICC”). GSA explained that the Commission should require local exchange carriers (“LECs”) to recover PICC revenue requirements directly from end users rather than through interexchange carriers (“IXCs”). However, if the Commission continues to authorize LECs to recover PICC revenue requirements from IXCs, the Commission should regulate the level and structure of charges that the IXCs employ to recover from end users the payments that the IXCs make to the LECs.

More than 40 additional parties submitted comments in response to the Notice. These parties include:

- 4 incumbent local exchange carriers;
- 10 other carriers and carrier associations;
- 5 state regulatory agencies;
- 7 end users and representatives of end users; and
- 15 private individuals and other parties.

In these Reply Comments, GSA responds to the positions advanced by these parties.

**II. CONTRARY TO ASSERTIONS BY SEVERAL CARRIERS, THE  
PICC REVENUE REQUIREMENT SHOULD BE RECOVERED  
DIRECTLY FROM END USERS.**

In the *Access Charge Reform Order* released in 1997, the Commission recognized the need to revise the system of interstate access charges for price cap LECs to ensure that costs for access to the network were recovered in the same way they were incurred.<sup>3</sup> The Commission recognized two approaches for meeting this objective: (1) increase the flat monthly subscriber line charges ("SLCs") paid by end users, or (2) supplement the SLCs with a new rate element.<sup>4</sup>

The Commission adopted the second alternative by introducing a new rate element, the flat monthly presubscribed interchange carrier charge ("PICC") to be assessed on interexchange carriers. Indeed, the Commission avoided placing the obligation for the PICC revenue requirement directly on end users because "rate increases might cause some consumers to discontinue service, a result that would be contrary to the mandate to ensure universal service."<sup>5</sup> However, the Commission allowed IXCs to recover the cost of their payments to LECs in their own charges for long-distance services.

Nearly all IXCs took advantage of the opportunity to pass the costs of PICCs to their own customers — a practice that has generated substantial dissatisfaction and confusion among consumers.<sup>6</sup> Nevertheless, while the practice of recovering the PICC revenue requirement through IXCs has resulted in dissatisfaction and confusion, several carriers continue to defend this procedure in their comments. For example, the

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<sup>3</sup> In the Matter of Access Charge Reform, CC Docket No. 96-262 *et al.*, First Report and Order, released May 16, 1997 ("*Access Charge Reform Order*"), para. 36.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*, paras. 37-38.

<sup>6</sup> Notice, paras. 9-13.

Rural Telephone Coalition states that the Commission should refrain from “shifting IXC–caused costs onto end users by making local carriers collect the PICC.”<sup>7</sup>

Large IXCs also assert that no changes in the Commission’s rules concerning access charges are advisable at this time. For example, WorldCom states that the competitive long–distance market produces prices that benefit consumers.<sup>8</sup> According to WorldCom, the Commission should “terminate this docket and direct its resources to important competitive issues.”<sup>9</sup>

In sharp contrast with the request to “terminate the docket,” the comments by end users describe a different set of priorities. Indeed, rarely has a Notice engendered such an outpouring of consumer–based responses — five comments by state regulatory agencies, eight by end users (or groups of users) and more than a dozen by individuals or their representatives. Users — small and large — express confusion with billing procedures employed by IXCs. Moreover, as GSA explained, consumer frustration is compounded by the fact some IXCs do not even identify a PICC by its correct title, but employ a vague or non–informative term such as “National Access Fee.”<sup>10</sup>

Congressman Baron P. Hill, who represents an Indiana district, explains that consumers are confronted with a “laundry list of incomprehensible fees and charges.”<sup>11</sup> Congressman Hill cites the example of one constituent with two access lines who placed a single one–minute call to New York City during a recent billing

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<sup>7</sup> Comments of Rural Telephone Coalition, p. 2.

<sup>8</sup> Comments of MCI WorldCom, Inc. (“WorldCom”), pp. 1–2.

<sup>9</sup> *Id.*, p. 19.

<sup>10</sup> Comments of GSA, pp. 5–6.

<sup>11</sup> Comments of Baron P. Hill, p. 1.

period.<sup>12</sup> The charge for the call was 28 cents, but the total long-distance bill was \$12.71.<sup>13</sup> This amount included \$6.06 for “National Access Contribution Charges.”<sup>14</sup>

Dissatisfaction with the collection of PICCs through IXC has not been confined to “low volume” users. As GSA explained, Federal agencies that are accustomed to transactions with multiple telecommunications carriers have experienced problems with PICC billings, including errors in charges and “double-billing” of PICCs for the same access line by multiple carriers.<sup>15</sup>

Other experienced users of telecommunications services are also displeased with the present billing practices for PICCs. The Ad Hoc Telecommunications Users Committee (“Ad Hoc”) urges the Commission to explore the option of requiring LECs to bill PICCs directly to end users.<sup>16</sup> Ad Hoc explains that this procedure would have at least three positive effects. Direct billing would:

- ensure that end users rather than IXCs receive the benefits of any reductions in PICCs;
- create a more direct link with the cost-causer, *i.e.* the end user whose fixed costs of access are addressed by the PICC; and
- perhaps most importantly, ensure that end users pay only the actual PICCs rates established in the respective incumbent LECs’ tariffs rather than an amount inflated by IXC mark-ups or averages.<sup>17</sup>

GSA concurs with Ad Hoc’s discussion of each of these advantages of direct billing.

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<sup>12</sup> *Id.*, pp. 2.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> Comments of GSA, p. 6.

<sup>16</sup> Comments of Ad Hoc, p. 7.

<sup>17</sup> *Id.*, pp. 7-8.

In its comments, AT&T acknowledges that in accord with the principles of cost causation, PICCs should be assessed directly on end users.<sup>18</sup> AT&T explains that direct billing is more efficient because it eliminates a set of billing and collection costs.<sup>19</sup>

In short, the Commission should take a significant step to provide a more direct and orderly system for recovering the fixed costs of access to the switched network. Indeed, as GSA explained, the PICCs for all types of lines — primary residential, non-primary residential, business single lines, and business multi-lines — should be billed directly, because users of all types of access facilities have been the victims of the confusion and inequities in the current system.<sup>20</sup>

**III. THE COMMISSION SHOULD NOT HEED REQUESTS TO ALLOW  
PICC “PASS-THROUGHS” GREATER THAN THE COSTS  
INCURRED BY IXCs.**

Pass-through of PICCs by IXCs to their customers has proven to be a cumbersome process, as described in comments by a variety of end users in this proceeding. Moreover, the existing procedure has proven to be expensive, because it is apparent that IXCs on average are charging more than they pay.

As GSA explained in its Comments, several major IXCs charge end users a national average access fee which is greater than the maximum charge that they currently pay to LECs.<sup>21</sup> In defense of this practice, IXCs contend that (1) they are unable to bill accurately because the invoices they receive from LECs do not show which customers have primary lines and which have non-primary lines; (2) they are

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<sup>18</sup> Comments of AT&T Corp. (“AT&T”), p. 37.

<sup>19</sup> *Id.*

<sup>20</sup> Comments of GSA, p. 8.

<sup>21</sup> *Id.*, pp. 5–6.

entitled to recover their “costs” of billing; and (3) they must be able to recover some of the “costs” that they previously failed to recover under the “old” access charge regime.<sup>22</sup>

In their comments in response to the Notice, both IXC and LECs argue for complete flexibility to “pass-through” PICCs levied by LECs. For example, AT&T asserts that its PICC pass-through charges are “reasonable efforts” to recover its costs, and should not be restricted.<sup>23</sup> Similarly, BellSouth contends that any plan to regulate flat monthly charges would be inconsistent with the competitive goals embodied in the Telecommunications Act and potentially counterproductive.<sup>24</sup> Indeed, several carrier parties even object to the establishment of requirements for billing inserts providing additional information about PICC and similar charges, and the alternatives available to consumers such as “dial-around” services.<sup>25</sup>

In contrast to the requests for flexibility by carriers, end users voice complaints with the magnitude of the PICCs levied on them by IXCs. For example, the New York City Department of Information Technology and Telecommunications states that PICCs are important to the City as a major end user, and also significant for its residents:

[t]he City in the past year has realized a huge increase in the cost of its basic telephone service resulting from just the PICC. While the current regulations unfairly increase the cost of basic telephone service for citizens that make few long-distance telephone calls, the inequitable impact is further exacerbated by requiring the City — charged with providing municipal services to all of its citizens — to spend hundreds of thousands in additional access charges.<sup>26</sup>

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<sup>22</sup> *Id.* and Notice, paras. 11–14.

<sup>23</sup> Comments of AT&T, p.4.

<sup>24</sup> Comments of BellSouth Corporation (“BellSouth”), p. 6.

<sup>25</sup> *See*, for example, Comments of Sprint Corporation, pp. 7–8; and Comments of the Competitive Telecommunications Association, pp. 6–7.

<sup>26</sup> Comments of the City of New York Department of Information Technology and Telecommunications, p. 3 (emphasis supplied.)

In addition, an organization representing the interests of California's residential and small business users states that this proceeding "is long overdue."<sup>27</sup> This organization explains, "At the bare minimum, the Commission should prohibit line charges for universal service fund payments and PICC 'pass through' charges that exceed the corresponding payment to the local carrier."<sup>28</sup>

In short, comments demonstrate that the Commission should adopt a rule stating that an IXC should not charge a PICC above its actual cost. This rule must recognize three variables that determine the PICC: (1) the location of the end user, (2) the identity of the LEC providing local service, and (3) the number of each type of prescribed line at that location. For example, the monthly PICC for the Indiana resident with two lines mentioned by Congressman Hill should be no more than \$3.57, based on the access tariffs filed by Ameritech.<sup>29</sup> The \$3.57 monthly maximum is the total of two Ameritech PICCs for residence subscribers — \$1.04 for the primary line and \$2.53 for the non-primary line.<sup>30</sup> Indeed, this calculation shows that the appropriate maximum pass-through for this case, \$3.57, is less than 60 percent of the \$6.06 "National Access Fee" actually billed by the IXC.

Although determination of the maximum PICC requires data on several variables, the calculation is not unduly complex. Moreover, as discussed previously in these Comments, the costs and potential errors associated with information transfer from LECs to IXCs would be avoided by direct billing of PICCs. However, until this procedure is implemented, the Commission should ensure that end users are not subject to excessive charges reflecting arbitrary mark-up or averaging procedures.

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<sup>27</sup> Comments of the Utility Reform Network, p. 1.

<sup>28</sup> *Id.*, p. 9.

<sup>29</sup> Ameritech Tariff FCC No. 2, Section 3.9.1, 2nd Revised page 24.1..

<sup>30</sup> *Id.*

#### **IV. THE COMMISSION SHOULD NOT ADOPT PROPOSALS TO RECOVER PICC COSTS FROM END USERS BASED ON THEIR USAGE LEVELS.**

In addition to the magnitude of the charges employed to recover the PICC revenue requirement, the structure of these charges is also an important issue in this proceeding. In the Notice, the Commission is requesting comments on whether IXCs should be allowed to pass-through the costs of PICCs to their presubscribed end users as a percentage of the bill rendered in each month.<sup>31</sup> The Notice suggests this approach as a means of reducing the costs of telecommunications service for users with lower calling volumes.<sup>32</sup>

Some IXCs contend that they should be permitted to recover the costs of PICCs by using any rate structure that they devise. For example, Excel asserts that the Commission should not regulate how carriers recover their costs in a competitive environment.<sup>33</sup> According to Excel, whether carriers recover costs as a flat-rate or as a per-minute charge "is a business decision that should not be made by the Commission."<sup>34</sup>

Additional IXCs assert that the marketplace alone should determine their billing policies. For example, Sprint contends that "the highly competitive nature of the long-distance industry ensures that any billing practice that may improperly inure to the benefit of a particular carrier will be short-lived."<sup>35</sup>

GSA urges the Commission not to heed claims that carriers should have unbridled flexibility in setting rate structures for recovering PICC payments. With

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<sup>31</sup> Notice, para. 21.

<sup>32</sup> *Id.*

<sup>33</sup> Comments of Excel Communications ("Excel"), p. 4.

<sup>34</sup> *Id.*

<sup>35</sup> Comments of Sprint, p. 3.

competition, IXCs should be permitted to select the rate element to be employed for recovering their own costs. However, it is important to recognize that the Commission designed the structure of interstate access charges to implement important initiatives and to balance the needs for competition benefiting all ratepayers.

Specifically, the Commission established the PICC rate element as a per-line charge to eliminate recovery of non-traffic sensitive costs through usage-sensitive rates. As GSA explained in its Comments, the Commission correctly viewed recovery of non-traffic sensitive costs with usage-based charges as an inefficient procedure that artificially suppresses demand for telecommunications services.<sup>36</sup> Since the IXCs bill their long-distance customers on the basis of minutes of use, pass-through of the PICC on a percentage basis would revert to the inefficient system that the Commission replaced in the *Access Charge Reform Order*.

Moreover, there is a propensity to assume that low-volume users are generally low-income users who require regulatory protection. This assumption is not appropriate. Indeed, a study presented in an affidavit by a major IXC shows that there is virtually no correlation between income and long-distance usage.<sup>37</sup> For example, for this IXC, the mean household income of all customers was \$44,738, while the mean household income of customers incurring charges of less than \$3.00 a month for message toll service was \$43,160 — a difference of only 3.5 percent.<sup>38</sup>

End users also address the importance of maintaining an economically efficient rate structure. For example, Ad Hoc explains:

The Commission cannot turn back the regulatory and economic clock by attempting to insulate consumers from the true costs of the

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<sup>36</sup> Comments of GSA, pp. 4-5; and *Access Charge Reform Order*, para. 104.

<sup>37</sup> Comments of AT&T, pp. 20-22; and accompanying Declaration of Gregory L. Rosston.

<sup>38</sup> Comments of AT&T, p. 22.

services they utilize, except through narrowly targeted, explicit subsidies based on legitimate public policy.<sup>39</sup>

GSA concurs with this view, and urges the Commission not to reverse the steps it has taken to align rate structures for interstate access charges with their underlying costs.

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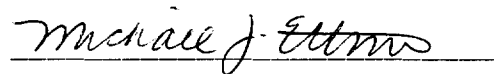
<sup>39</sup> Comments of Ad Hoc, p. 10.

## V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

Respectfully submitted,

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October 22, 1999

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I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 22nd day of October, 1999, by hand delivery or postage paid to the following parties.

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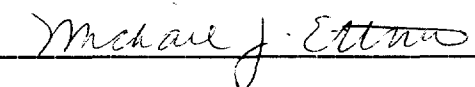
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